

Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended.

Unit Name	Arbela Township	County	TUSCOLA	Type	TOWNSHIP	MuniCode	79-1-030
Opinion Date	8/5/08	Audit Submitted	AUGUST 26, 2008		Fiscal Year	March 31, 2008	

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$463,806
General Fund Expenditure:	\$532,447
Major Fund Deficit Amount:	0

General Fund Balance:	\$258,074
Governmental Activities Long-Term Debt (see instructions):	0

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Gerald	Last Name	Desloover	Ten Digit License Number			1101007126
CPA Street Address	5800 Gratiot Road, Suite 201	City	Saginaw	State	MI	Zip Code	48605
CPA Firm Name	Rehmann Robson	Unit's Street Address	8935 E. Birch Run Rd.	City	Millington, MI	Zip Code	48746

Arbela Township
Millington, Michigan

Financial Statements

March 31, 2008



REHMANN ROBSON

Certified Public Accountants

ARBELA TOWNSHIP

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INDEPENDENT AUDITORS' REPORT



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

INDEPENDENT AUDITORS' REPORT

August 5, 2008

To the Township Board
Arbela Township
Millington, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Arbela Township** as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Arbela Township as of March 31, 2008, and the respective changes in financial position thereof and the respective budgetary comparisons of the General Fund, Garbage Fund, Police Fund and Fire Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis listed in the table of contents on pages 3-8, is not a required part of the basic financial statement but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Arbela Township's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management Discussion and Analysis

As Management of Arbela Township, Michigan, we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2008. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights

The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$1,364,977 (net assets). Of this amount \$932,701 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's total net assets increased by \$29,002 from the previous year.

As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$932,701, an increase of \$15,251 in comparison with the prior year. More than 66.9 percent of this total amount, or \$624,218, is available for spending at the government's discretion (unreserved fund balance).

At the end of the current fiscal year, unreserved fund balance for the general fund was \$258,074 or 48.4 percent of the total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. This, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include legislative, general government, public safety, public works, recreation and cultural. The Township does not have any business-type activities. The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Township maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, garbage, police and fire funds, each of which are considered to be major funds. Data from the other governmental fund (building department fund) is listed as a single, aggregated presentation. Individual fund data for the non-major governmental fund is provided elsewhere in this report.

The Township adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for governmental funds. The basic fiduciary fund financial statement can be found on page 19 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-28 of this report.

Other Information. The statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the accompanying notes. Combining and individual fund statements and schedules can be found on pages 29-33 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Arbela Township, assets exceeded liabilities by \$1,364,977 at the close of the most recent fiscal year.

One of the largest portions of the Township's net assets (31.7 percent) reflects its investment in capital assets. (e.g., land, buildings, equipment and vehicles). The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Arbela Township's Net Assets

	Governmental Activities	
	2007	2008
Current and other assets	\$ 952,088	\$ 988,870
Capital assets not being depreciated	67,552	67,552
Capital assets being depreciated	<u>350,973</u>	<u>364,724</u>
Total Assets	<u>1,370,613</u>	<u>1,421,146</u>
Liabilities, current	<u>34,638</u>	<u>56,169</u>
Net Assets:		
Invested in capital assets	418,525	432,276
Unrestricted	<u>917,450</u>	<u>932,701</u>
Total net assets	<u>\$ 1,335,975</u>	<u>\$ 1,364,977</u>

The Township's net assets increased by \$29,002 during the current fiscal year. This growth largely reflects the degree to which ongoing revenues exceeded ongoing expenses minus any decrease in spending.

Arbela Township's Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2008</u>
Revenues:		
Program revenues:		
Charges for services	\$ 64,102	\$ 55,829
Operating grants and contributions	242,804	243,595
General revenues:		
Property taxes	482,700	500,689
Unrestricted investment earnings	<u>23,998</u>	<u>26,346</u>
Total revenue	<u>813,604</u>	<u>826,459</u>
Expenses:		
Legislative	22,052	25,675
General government	245,305	251,591
Public safety	149,568	148,181
Public works	260,609	364,050
Culture and recreation	<u>4,675</u>	<u>7,960</u>
Total expenses	<u>682,209</u>	<u>797,457</u>
Increase in net assets	131,395	29,002
Net assets, beginning of year	<u>1,204,580</u>	<u>1,335,975</u>
Net assets, end of year	<u>\$ 1,335,975</u>	<u>\$ 1,364,977</u>

Governmental Activities. Governmental activities increased the Township's net assets by \$29,002 resulting in about 2.2 percent growth in the net assets of the Township. This minimal increase is a result of Township revenues and expenses remaining relatively constant, with revenues slightly out pacing expenses.

Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$932,701, an increase of \$15,251 in comparison with the prior year. Approximately 66.9 percent of this total amount (\$624,218) constitutes unreserved fund balance, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the Township. At the end of the current fiscal year, undesignated fund balance of the general fund was \$95,223, and total fund balance was \$258,074. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 17.9 percent of total general fund expenditures.

The fund balance of the Township's general fund decreased by \$68,641 during the current fiscal year. The decrease is attributable to expenditures in excess of revenues.

The fire protection fund has a total fund balance of \$100,676, which increased by \$11,068 during the year. The increase is primarily attributable to unspent revenues.

The Police Fund has a total fund balance of \$346,384, which increased by \$57,081 during the year. The increase is primarily attributable to unspent revenues.

The Garbage Fund has a total fund balance of \$225,607, which increased \$15,462. The increase is primarily attributable to unspent revenues.

General Fund Budgetary Highlights

Differences between the original and final amended budgets for expenditures were relatively minor and the adjustments were made as a part of the Township's budget procedures to address changes in activity during the year.

Budget to actual comparisons for the Township's general fund were generally favorable.

Capital Asset and Debt Administration

Capital Assets. The Township's investment in capital assets for its governmental activities as of March 31, 2008, amounted to \$432,276. This investment in capital assets includes land, land improvements, buildings and improvements, equipment and vehicles.

**Arbela Township's
Capital Assets**
(net of depreciation)

	Governmental <u>Activities</u>
Land	\$ 67,552
Buildings and improvements	204,540
Equipment	36,056
Vehicles	<u>124,128</u>
Total net assets	<u>\$ 432,276</u>

The Township enjoys no long term debt.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Township's budget for the 2007-08 fiscal year:

The Township is comprised principally of agriculture and residential areas with one commerce corridor.

Inflationary trends in the region compare favorable to national indexes.

Increase in wages, gasoline and our five-year road plan and revenue sharing decreases.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Township's office, 8935 East Birch Run Road, Millington, MI 48746.

BASIC FINANCIAL STATEMENTS

ARBELA TOWNSHIP

STATEMENT OF NET ASSETS

MARCH 31, 2008

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 869,018
Accounts receivable	103,328
Prepays	16,524
Capital assets, net:	
Assets not being depreciated	67,552
Assets being depreciated	<u>364,724</u>
Total assets	1,421,146
Liabilities	
Accounts payable	<u>56,169</u>
Net Assets	
Invested in capital assets	432,276
Unrestricted	<u>932,701</u>
Total net assets	<u>\$ 1,364,977</u>

The accompanying notes are an integral part of these financial statements.

ARBELA TOWNSHIP

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED MARCH 31, 2008

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Legislative	\$ 25,675	\$ -	\$ -	\$ (25,675)
General government	251,591	47,143	243,595	39,147
Public safety	148,181	8,686	-	(139,495)
Public works	364,050	203,085	-	(160,965)
Culture and recreation	7,960	-	-	(7,960)
Total governmental activities	<u>\$ 797,457</u>	<u>\$ 258,914</u>	<u>\$ 243,595</u>	<u>(294,948)</u>
General revenues:				
Property taxes				297,604
Unrestricted investment earnings				<u>26,346</u>
Total general revenues				<u>323,950</u>
Change in net assets				29,002
Net assets, beginning of year				<u>1,335,975</u>
Net assets, end of year				<u>\$ 1,364,977</u>

The accompanying notes are an integral part of these financial statements.

ARBELA TOWNSHIP

BALANCE SHEET

GOVERNMENTAL FUNDS

MARCH 31, 2008

ASSETS	General	Garbage	Police
Cash and cash equivalents	\$ 209,041	\$ 214,100	\$ 335,419
Accounts receivable	36,412	178	467
Taxes receivable	18,514	23,385	15,572
Prepaid expenditures	<u>16,524</u>	<u>-</u>	<u>-</u>
Total assets	<u><u>\$ 280,491</u></u>	<u><u>\$ 237,663</u></u>	<u><u>\$ 351,458</u></u>
 LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	<u>\$ 22,417</u>	<u>\$ 12,056</u>	<u>\$ 5,074</u>
Fund balances:			
Unreserved -			
Designated for subsequent			
years' expenditures	162,851	-	103,132
Undesignated	95,223	225,607	243,252
Undesignated, reported in nonmajor			
special revenue funds	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>258,074</u>	<u>225,607</u>	<u>346,384</u>
Total liabilities and fund balances	<u><u>\$ 280,491</u></u>	<u><u>\$ 237,663</u></u>	<u><u>\$ 351,458</u></u>

The accompanying notes are an integral part of these financial statements.

Fire	Other Governmental Fund	Total
\$ 108,559	\$ 1,899	\$ 869,018
257	940	38,254
7,603	-	65,074
-	-	16,524
<u>\$ 116,419</u>	<u>\$ 2,839</u>	<u>\$ 988,870</u>
<u>\$ 15,743</u>	<u>879</u>	<u>\$ 56,169</u>
41,000	1,500	308,483
59,676	-	623,758
-	460	460
<u>100,676</u>	<u>1,960</u>	<u>932,701</u>
<u>\$ 116,419</u>	<u>\$ 2,839</u>	<u>\$ 988,870</u>

ARBELA TOWNSHIP

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

MARCH 31, 2008

Fund balances - total governmental funds	\$ 932,701
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Add: Capital assets	808,859
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Subtract: Accumulated depreciation	<u>(376,583)</u>
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Net assets of governmental activities	<u><u>\$ 1,364,977</u></u>
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The accompanying notes are an integral part of these financial statements.

ARBELA TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED MARCH 31, 2008

	General	Garbage	Police
Revenues			
Taxes / special assessments	\$ 167,587	\$ 153,125	\$ 130,017
Licenses and permits	5,420	-	-
Intergovernmental	243,595	-	-
Charges for services	15,474	-	-
Interest and rental income	26,050	6,454	11,007
Other revenue	5,680	-	3,017
Total revenues	463,806	159,579	144,041
Expenditures			
Current:			
General government	217,749	-	-
Public safety	3,922	-	83,010
Public works	218,995	144,117	-
Recreation and culture	7,960	-	-
Other expenditures	35,992	-	-
Capital outlay	47,829	-	3,950
Total expenditures	532,447	144,117	86,960
Net change in fund balances	(68,641)	15,462	57,081
Fund balances, beginning of year	326,715	210,145	289,303
Fund balances, end of year	\$ 258,074	\$ 225,607	\$ 346,384

The accompanying notes are an integral part of these financial statements.

Fire	Other Governmental Fund	Total
<u> </u>	<u> </u>	<u> </u>
\$ 49,960	\$ -	\$ 500,689
-	5,509	10,929
-	-	243,595
-	-	15,474
3,326	78	46,915
160	-	8,857
<u> </u>	<u> </u>	<u> </u>
53,446	5,587	826,459
<u> </u>	<u> </u>	<u> </u>
-	-	217,749
42,378	5,306	134,616
-	-	363,112
-	-	7,960
-	-	35,992
-	-	51,779
<u> </u>	<u> </u>	<u> </u>
42,378	5,306	811,208
<u> </u>	<u> </u>	<u> </u>
11,068	281	15,251
<u> </u>	<u> </u>	<u> </u>
89,608	1,679	917,450
<u> </u>	<u> </u>	<u> </u>
<u>\$ 100,676</u>	<u>\$ 1,960</u>	<u>\$ 932,701</u>

ARBELA TOWNSHIP

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED MARCH 31, 2008

Net change in fund balances - total governmental funds	\$ 15,251
Amounts reported for <i>governmental activities</i> in the statement of activities are	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Add: capital asset purchases	46,071
Subtract: depreciation expense	<u>(32,320)</u>
Change in net assets of governmental activities	<u>\$ 29,002</u>

The accompanying notes are an integral part of these financial statements.

ARBELA TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED MARCH 31, 2008

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenues				
Taxes	\$ 156,723	\$ 167,587	\$ 167,587	\$ -
Licenses and permits	125	5,420	5,420	-
Intergovernmental:				
State shared revenues	230,000	243,595	243,595	-
Charges for services	13,550	15,474	15,474	-
Interest and rental income	27,352	26,049	26,050	1
Other revenue	7,065	5,680	5,680	-
Total revenues	<u>434,815</u>	<u>463,805</u>	<u>463,806</u>	<u>1</u>
Expenditures				
Current:				
General government	270,821	274,319	217,749	(56,570)
Public safety	8,450	8,450	3,922	(4,528)
Public works	194,393	222,028	218,995	(3,033)
Recreation and culture	18,000	8,000	7,960	(40)
Other expenditures	45,500	45,494	35,992	(9,502)
Capital outlay	60,500	54,188	47,829	(6,359)
Total expenditures	<u>597,664</u>	<u>612,479</u>	<u>532,447</u>	<u>(80,032)</u>
Net change in fund balances	(162,849)	(148,674)	(68,641)	80,033
Fund balances, beginning of year	<u>326,715</u>	<u>326,715</u>	<u>326,715</u>	<u>-</u>
Fund balances, end of year	<u>\$ 163,866</u>	<u>\$ 178,041</u>	<u>\$ 258,074</u>	<u>\$ 80,033</u>

The accompanying notes are an integral part of these financial statements.

ARBELA TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GARBAGE FUND

FOR THE YEAR ENDED MARCH 31, 2008

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenues				
Taxes	\$ 151,483	\$ 153,125	\$ 153,125	\$ -
Interest and rental income	5,500	6,454	6,454	-
Total revenues	156,983	159,579	159,579	-
Expenditures				
Current:				
Public works	153,683	153,683	144,117	(9,566)
Net change in fund balances	3,300	5,896	15,462	9,566
Fund balances, beginning of year	210,145	210,145	210,145	-
Fund balances, end of year	<u>\$ 213,445</u>	<u>\$ 216,041</u>	<u>\$ 225,607</u>	<u>\$ 9,566</u>

The accompanying notes are an integral part of these financial statements.

ARBELA TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL POLICE FUND

FOR THE YEAR ENDED MARCH 31, 2008

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenues				
Taxes	\$ 124,368	\$ 130,017	\$ 130,017	\$ -
Interest and rental income	7,500	11,009	11,007	(2)
Other revenue	3,100	3,017	3,017	-
Total revenues	134,968	144,043	144,041	(2)
Expenditures				
Current:				
Public safety	168,100	168,100	83,010	(85,090)
Capital outlay	70,000	70,000	3,950	(66,050)
Total expenditures	238,100	238,100	86,960	(151,140)
Net change in fund balances	(103,132)	(94,057)	57,081	151,138
Fund balances, beginning of year	289,303	289,303	289,303	-
Fund balances, end of year	\$ 186,171	\$ 195,246	\$ 346,384	\$ 151,138

The accompanying notes are an integral part of these financial statements.

ARBELA TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL FIRE FUND

FOR THE YEAR ENDED MARCH 31, 2008

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenues				
Taxes	\$ 50,040	\$ 49,960	\$ 49,960	\$ -
Interest and rental income	2,500	3,326	3,326	-
Other revenue	500	160	160	-
Total revenues	53,040	53,446	53,446	-
Expenditures				
Current:				
Public safety	93,560	93,560	42,378	(51,182)
Net change in fund balances	(40,520)	(40,114)	11,068	51,182
Fund balances, beginning of year	89,608	89,608	89,608	-
Fund balances, end of year	<u>\$ 49,088</u>	<u>\$ 49,494</u>	<u>\$ 100,676</u>	<u>\$ 51,182</u>

The accompanying notes are an integral part of these financial statements.

ARBELA TOWNSHIP

STATEMENT OF FIDUCIARY NET ASSETS

MARCH 31, 2008

ASSETS		Total
		<hr/>
Cash and cash equivalents		\$ 251,901
Accounts receivable		<hr/> 18
Total assets		<hr/> <hr/> \$ 251,919
LIABILITIES		
Undistributed deposits		<hr/> <hr/> \$ 251,919

The accompanying notes are an integral part of these financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

ARBELA TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of *Arbela Township* (the “Township”), conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies:

A. REPORTING ENTITY

The Township has determined that no entities should be consolidated into its basic financial statements as component units. The criteria for including a component unit includes significant operational or financial relationships with the Township. Therefore, the reporting entity consists only of the primary government.

Joint Operations – Arbela Township participates in a joint fire services board with Millington Township. Records are maintained and funds are held by Millington Township. Arbela Township pays 40% of the fire board expenses plus a flat fee for fire runs in Arbela Township. Total Arbela Township contributions for the year ended March 31, 2008 were \$41,412.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Township has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, including special assessments and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

ARBELA TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting; the agency funds use the accrual basis of accounting, but do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or within one year for reimbursement – based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, franchise taxes, licenses, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *garbage fund* accounts for the collection of a separate tax millage that is used to fund the operations of garbage collection.

ARBELA TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

The *police fund* accounts for the collection of a separate tax millage that is used to fund the operations of the Tuscola County police officer assigned to the Township.

The *fire fund* accounts for the collection of a separate tax millage that is used to fund the operations of fire services.

Additionally, the Township reports the following fund types:

Agency funds are used to account for assets held for other governments in an agency capacity, including tax collections.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

1. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of deposits in checking accounts and savings accounts.

2. RECEIVABLES AND PAYABLES

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

ARBELA TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

3. PREPAIDS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. CAPITAL ASSETS

Capital assets, which include property, plant, and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized when purchased. Capital assets of the Township are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5-20
Buildings and improvements	5-40
Equipment	5-20
Vehicles	4-10

5. FUND EQUITY

Designations of unreserved fund equity in governmental funds indicate the Township's tentative plans for use of financial resources in a future period. Reserved fund equity represents amounts legally identified for specific purposes.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETS AND BUDGETARY ACCOUNTING

Comparisons to budget are presented for the General Fund and Special Revenue Funds. The operating budget is adopted by activity for the General Fund and by function for the Special

ARBELA TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

Revenue funds. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Any revisions that alter the total expenditures of any fund must be approved by the Township Board. Budgeted amounts are as originally adopted, or as amended by the Township Board.

III. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown in the financial statements to the Township's deposits and investments is as follows:

	<u>Total</u>
Government-wide Financial Statement Captions:	
Primary Government:	
Cash and cash equivalents	\$ 869,018
Fiduciary Fund Financial Statement Captions:	
Cash and cash equivalents	<u>251,901</u>
	<u>\$ 1,120,919</u>
Notes to Financial Statements:	
Deposits	\$ 1,120,719
Cash on hand	<u>200</u>
Total	<u>\$ 1,120,919</u>

Investment and deposit risk:

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The Township's investment policy does not have specific limits in excess of state law on investment credit risk. The Township has no investments for which ratings are required.

Custodial credit risk deposits. Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the

ARBELA TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

Township does not have a policy for deposit custodial credit risk. As of year end, \$1,081,765 of the Township's bank balance of \$1,181,765 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Township is authorized by statute to invest surplus funds in the following:

- ◆ Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- ◆ Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- ◆ Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- ◆ In banker's acceptances of United States banks.
- ◆ Obligations of the State of Michigan and its political subdivisions that, at the time of purchase, are rated as investment grade by at least one standard rating service.
- ◆ Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- ◆ External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The Township Board is authorized to designate depositories for Township funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The Township's deposits are in accordance with statutory authority.

ARBELA TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

B. RECEIVABLES

Receivables in the primary government are as follows:

	<u>Governmental Activities</u>
Taxes	\$ 65,074
Accounts	<u>38,254</u>
Total	<u>\$ 103,328</u>

C. CAPITAL ASSETS

Capital assets activity for the year ended March 31, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	<u>\$ 67,552</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,552</u>
Capital assets being depreciated:				
Land improvements	17,420	-	-	17,420
Buildings and improvements	386,614	-	-	386,614
Equipment	26,080	46,071	(20,454)	51,697
Vehicles	<u>285,576</u>	<u>-</u>	<u>-</u>	<u>285,576</u>
Total capital assets being depreciated	<u>715,690</u>	<u>46,071</u>	<u>(20,454)</u>	<u>741,307</u>
Less accumulated depreciation				
Land improvements	(17,420)	-	-	(17,420)
Buildings and improvements	(173,023)	(9,051)	-	(182,074)
Equipment	(25,943)	(10,152)	20,454	(15,641)
Vehicles	<u>(148,331)</u>	<u>(13,117)</u>	<u>-</u>	<u>(161,448)</u>
Total accumulated depreciation	<u>(364,717)</u>	<u>(32,320)</u>	<u>20,454</u>	<u>(376,583)</u>

ARBELA TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Total capital assets being depreciated, net	<u>350,973</u>	<u>13,751</u>	<u>-</u>	<u>364,724</u>
Governmental activities capital assets, net	<u>\$ 418,525</u>	<u>\$ 13,751</u>	<u>\$ -</u>	<u>\$ 432,276</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 18,265
Public safety	13,117
Public works	<u>938</u>

**Total depreciation expense –
governmental activities**

\$ 32,320

IV. OTHER INFORMATION

A. DEFINED CONTRIBUTION BENEFIT PLAN

The Township contributes to the Arbela Township Allocated Retirement Account, which is a defined contribution pension plan. The plan is administered by Manulife Financial.

Contributions made by an employee vest immediately and contributions made by the Township vest after one month of full-time employment. An employee who leaves the employment of the Township is entitled to his or her contributions and the Township's contributions if vesting requirements are satisfied, plus interest earned. The Township is required to contribute 10% of the employee's annual compensation and the employee is required to contribute 5% of their annual compensation. Plan provisions and contribution requirements are established and may be amended by the Township Board.

During the Plan year, the Township's required and actual contributions amounted to \$10,086 which was 10% of its covered payroll. Employees contributed \$5,043 to the Plan, which was 5% of covered payroll. Presently, six employees participate in the Plan.

ARBELA TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

B. PROPERTY TAXES

Township property taxes and special assessments are attached as an enforceable lien on property as of December 1 and are due without penalty on or before March 1. Real property taxes and special assessments not collected as of March 1 are turned over to Tuscola County for collection, which advances the Township 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the Township Treasurer. Property taxes and special assessments are recognized as revenue in the fiscal year in which they are levied.

The taxable value of real and personal property located in the Township at December 1, 2007, totaled \$66,899,611, which equals the State equalized value. The tax levy rates for general operating purposes, roads and police for that year were 1.4203 mills, .9372 mills, and 2.0000 mills, respectively.

C. COMMITMENTS AND CONTINGENCIES

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended March 31, 2008, the Township carried commercial insurance to cover all risks of losses. The Township has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

* * * * *

SUPPLEMENTARY INFORMATION

ARBELA TOWNSHIP

GENERAL FUND SCHEDULE OF REVENUES BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2008

	Original Budget	Amended Budget	Actual	Over (Under) Budget
TAXES				
Current property taxes	\$ 131,835	\$ 139,846	\$ 139,846	\$ -
Delinquent taxes and interest	24,888	27,741	27,741	-
Total taxes	156,723	167,587	167,587	-
LICENSES AND PERMITS				
Building permits	25	25	25	-
Metro Authority permits	-	5,295	5,295	-
Other licenses and permits	100	100	100	-
Total licenses and permits	125	5,420	5,420	-
STATE SHARED REVENUE	230,000	243,595	243,595	-
CHARGES FOR SERVICES				
Cemetery	2,400	3,420	3,420	-
Other charges for services	11,150	12,054	12,054	-
Total charges for services	13,550	15,474	15,474	-
INTEREST AND RENTAL INCOME	27,352	26,049	26,050	1
OTHER REVENUE				
Reimbursements	7,065	5,680	5,680	-
Total revenues	\$ 434,815	\$ 463,805	\$ 463,806	\$ 1

ARBELA TOWNSHIP

GENERAL FUND SCHEDULE OF EXPENDITURES BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
GENERAL GOVERNMENT				
Township Board	\$ 48,653	\$ 48,654	\$ 25,675	\$ (22,979)
Township Supervisor	15,450	15,450	11,356	(4,094)
Elections	3,000	3,000	1,799	(1,201)
Assessor	34,335	34,335	17,572	(16,763)
Clerk	24,027	24,027	23,024	(1,003)
Board of Review	1,430	1,430	1,082	(348)
Treasurer	27,470	27,470	24,649	(2,821)
Cemetery	36,540	37,660	34,193	(3,467)
Township Hall	79,916	82,293	78,399	(3,894)
Total general government	<u>270,821</u>	<u>274,319</u>	<u>217,749</u>	<u>(56,570)</u>
PUBLIC SAFETY				
Fire	450	450	420	(30)
Planning commission	8,000	8,000	3,502	(4,498)
Total public safety	<u>8,450</u>	<u>8,450</u>	<u>3,922</u>	<u>(4,528)</u>
PUBLIC WORKS				
Highways, streets and drains	<u>194,393</u>	<u>222,028</u>	<u>218,995</u>	<u>(3,033)</u>
RECREATION AND CULTURE	<u>18,000</u>	<u>8,000</u>	<u>7,960</u>	<u>(40)</u>
OTHER EXPENDITURES				
Employee benefits	27,000	27,000	22,808	(4,192)
Insurance	18,500	18,494	13,184	(5,310)
Total other expenditures	<u>45,500</u>	<u>45,494</u>	<u>35,992</u>	<u>(9,502)</u>
CAPITAL OUTLAY	<u>60,500</u>	<u>54,188</u>	<u>47,829</u>	<u>(6,359)</u>
Total expenditures	<u>\$ 597,664</u>	<u>\$ 612,479</u>	<u>\$ 532,447</u>	<u>\$ (80,032)</u>

ARBELA TOWNSHIP

BALANCE SHEET NONMAJOR GOVERNMENTAL FUND

MARCH 31, 2008

	Building Department Fund
ASSETS	
Cash and cash equivalents	\$ 1,899
Accounts receivable	<u>940</u>
Total assets	<u><u>\$ 2,839</u></u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	<u>\$ 879</u>
Fund balance:	
Unreserved:	
Designated for subsequent years' expenditures	1,500
Undesignated	<u>460</u>
Total fund balance	<u>1,960</u>
Total liabilities and fund balance	<u><u>\$ 2,839</u></u>

ARBELA TOWNSHIP

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL NONMAJOR GOVERNMENTAL FUND

FOR THE YEAR ENDED MARCH 31, 2008

	Building Department Fund			Over (Under) Budget
	Original Budget	Amended Budget	Actual	
REVENUES				
Licenses and permits	\$ 19,500	\$ 5,509	\$ 5,509	\$ -
Interest and rental income	100	78	78	-
Total revenues	19,600	5,587	5,587	-
EXPENDITURES				
Current:				
Public safety	21,100	21,100	5,306	(15,794)
Net change in fund balances	(1,500)	(15,513)	281	15,794
Fund balances, beginning of year	1,679	1,679	1,679	-
Fund balances (deficit), end of year	\$ 179	\$ (13,834)	\$ 1,960	\$ 15,794

ARBELA TOWNSHIP
FIDUCIARY FUNDS
COMBINING BALANCE SHEET
MARCH 31, 2008

	<u>Agency Funds</u>		
	General	Current	
ASSETS	Agency	Tax	Total
		Collection	
Cash and cash equivalents	\$ 10,293	\$ 241,608	\$ 251,901
Accounts receivable	-	18	18
Total assets	<u>\$ 10,293</u>	<u>\$ 241,626</u>	<u>\$ 251,919</u>
LIABILITIES			
Undistributed deposits	<u>\$ 10,293</u>	<u>\$ 241,626</u>	<u>\$ 251,919</u>



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

August 5, 2008

To the Members of the Township Board
Arbela Township
Millington, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Arbela Township** for the year ended March 31, 2008, and have issued our report thereon dated August 5, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated April 8, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of **Arbela Township**. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on May 19, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the

appropriateness of accounting policies and their application. The significant accounting policies used by **Arbela Township** are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

To the Members of the Township Board
Arbela Township
August 5, 2008
Page 3

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 5, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Entity’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of **Arbela Township** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

ARBELA TOWNSHIP

SAS 112 Communications of Significant Deficiencies

For the Year Ended March 31, 2008

In planning and performing our audit of the financial statements of *Arbela Township* for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Township's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

1) **Lack of Adequate Controls to Produce Full-Disclosure GAAP Basis Financial Statements**

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the

ARBELA TOWNSHIP

SAS 112 Communications of Significant Deficiencies

For the Year Ended March 31, 2008

	government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the government's <i>internal</i> controls.
Cause:	This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
Effect:	As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
View of Responsible Officials:	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Arbela Township's written response to the significant deficiency identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Township Board of Trustees, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.